85-1152

No. .....

Supreme Court, U.S.
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JOSEPH F. SPANIOL, JR.
CLERK

In The

Supreme Court of the United States

October Term, 1985

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BANDAI AMERICA INCORPORATED,
A New Jersey Corporation
and
BANDAI COMPANY, LTD.,
a Japanese Corporation, and
BANDAI OVERSEAS CORPORATION,
a Japanese Corporation
now merged into
BANDAI COMPANY, LTD.,
Petitioners,

v.

BALLY MIDWAY MFG. CO.,
an Illinois Corporation,
NAMCO LTD.,
a Japanese Corporation, and
NAMCO AMERICA, INC.,
a California Corporation,
Respondents.

—o—

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

—o—

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QUESTIONS PRESENTED

1. When a copyright infringement action is settled on the basis of a record distorted by fraud and deceit, must the victim of the fraud, in seeking relief from the prior judgment in a subsequent action, show that the fraud had an actual effect on the outcome of the prior litigation or merely, as found in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944), that the victim of the fraud was deprived a full and fair opportunity to present his case?

2. Should not respondents' summary judgment motion have been denied, under either standard, upon a showing that respondent had misrepresented to the Copyright Office, and the trial court and litigants in the earlier action, the extent of its actual interest in the copyrights in question?

3. Was not the fraudulent procurement of the settlement in the prior action sufficient to set forth a cause of action since, under *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963), it must be said, at least on motion for summary judgment, that the fraudulently procured settlement was "part and parcel" of a scheme violative of the Sherman Act?

4. Was respondent NAMCO's participation in the fraud on the District Court sufficient to subject NAMCO to *in personam* jurisdiction in the same District Court in a later suit to reopen the fraudulently procurred judgment?

PARTIES BELOW

Pursuant to U.S. Sup. Ct. R. 28.1, petitioners advise as to the following:

Petitioner, BANDAI AMERICA, INC. is a New Jersey Corporation with its principal offices located in Allendale, New Jersey. It is a wholly-owned subsidiary of Petitioner BANDAI COMPANY, LTD., a Japanese corporation. Petitioner BANDAI OVERSEAS CORPORATION, a Japanese Corporation, was brought into this litigation as an involuntary plaintiff but it had previously been merged into BANDAI COMPANY, LTD. All of these entities will hereafter be referred to as "petitioners" or "BANDAI".

Respondent BALLY MIDWAY MFG. CO. ("MIDWAY") is an Illinois Corporation and is a wholly-owned subsidiary of BALLY MANUFACTURING AND DISTRIBUTING CORPORATION, which is in turn a wholly-owned subsidiary of the publicly held BALLY MANUFACTURING CORPORATION.

Respondent NAMCO AMERICA, INC. is a California corporation and is a wholly-owned subsidiary of respondent NAMCO LTD., a Japanese corporation. Except where more specifically referred to herein, both NAMCO, AMERICA, INC. and NAMCO LTD. will be referred to as "NAMCO".

COLECO INDUSTRIES, INC. ("COLECO"), a Connecticut Corporation, had been a party to this litigation but petitioners voluntarily withdrew their appeal to the United States Court of Appeals for the Third Circuit from the judgment in favor of that company.

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BANDAI AMERICA INCORPORATED,
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and
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a Japanese Corporation, and
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BALLY MIDWAY MFG. CO.,
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a Japanese Corporation, and
NAMCO AMERICA, INC.,
a California Corporation,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioners BANDAI AMERICA INCORPORATED, BANDAI COMPANY, LTD. and BANDAI OVERSEAS CORPORATION respectfully pray that a writ of certiorari issue to review the judgment and opinion of the

United States Court of Appeals for the Third Circuit entered in this proceeding on October 10, 1985.

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OPINION BELOW

The opinion of the Court of Appeals, reported at 775 F.2d 70, appears in the Appendix hereto. The opinion of the United States District Court for the District of New Jersey has not been officially reported but appears in the Appendix hereto.

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JURISDICTION

The judgment of the United States Court of Appeals for the Third Circuit was entered on October 10, 1985. The petition for certiorari was filed within 90 days of that date. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

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STATUTE INVOLVED

15 U.S.C. § 1:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination

or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

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STATEMENT OF THE CASE

This action alleges claims cognizable in the United States courts by virtue of federal question jurisdiction, 28 U.S.C. § 1331; the Copyright Act, 28 U.S.C. § 1338; the Antitrust Laws, 15 U.S.C. § 15; and the RICO jurisdictional statute, 18 U.S.C. §1964. The complaint was dismissed by way of summary judgment. Although certain counterclaims remain pending against the petitioners, the orders under question in the Court of Appeals and now the subject of this petition, were certified by the District Court as final judgments pursuant to Federal Rule of Civil Procedure 54(b).

By way of the complaint, petitioners sought relief under the Copyright, Sherman Antitrust and RICO Acts, and particularly, relief from a settlement and judgment in a prior action.

Petitioners had previously been defendants in a copyright infringement action brought by MIDWAY and COLECO in the District of New Jersey. In that action, MIDWAY and COLECO had charged that BANDAI had infringed the copyrights for Pac-Man and Galaxian, two

of the most popular audio-visual works of all time. In that prior action, MIDWAY told the District Court that it was the owner of the Pac-Man and Galaxian copyrights by virtue of assignment of "the entire right, title and interest" for each from their creator, NAMCO LTD., and that therefore it was the proper party to bring the suit. Nothing, however, could have been further from the truth. In fact, a contemporaneous oral agreement existed whereby MIDWAY, in contradiction of the written assignment, was obligated to return the rights upon request of NAMCO. By creation of this fabrication, MIDWAY was able to insulate NAMCO from compulsory discovery and thus, close the door to BANDAI's beliefs that Pac-Man and Galaxian were not the original works MIDWAY purported them to be in its copyright registration but rather were derivative works entitled only to limited protection under the Copyright Act.

The record before the District Judge in the earlier action, because of the absence of compulsory discovery from NAMCO, and in light of the false statements of MIDWAY and NAMCO, revealed only that the assignments were as the written documents purported them to be. As a result, a preliminary injunction and partial summary judgment were entered in favor of MIDWAY and COLECO. Because of this setback, petitioners entered into a settlement agreement of the earlier action highly favorable to their adversaries.

Subsequently, evidence was uncovered revealing that MIDWAY's claim of ownership was a lie, and that NAMCO, supposedly far removed from any interest in the earlier action, was, in fact, MIDWAY's secret partner in the process of the litigation.

The newly-discovered documents included three letters. In one, dated December 24, 1981, the president of

NAMCO-AMERICA wrote to the president of MIDWAY and confirmed the existence of an oral agreement between NAMCO and MIDWAY whereby MIDWAY was to give the Pac-Man and Galaxian copyrights back to NAMCO upon request. The existence of this oral agreement was completely inconsistent with their representations to the Copyright Office and the District Court in the earlier action. Specifically, in pertinent part, the letter said:

> Dave, as I indicated in our last telephone conversation, we, at NAMCO, truly appreciate the tremendous efforts which you have rendered in fighting against all the infringers in the U.S. and Canada, protecting both yours and our rights. There is no intention whatsoever for NAMCO to endanger or to risk the legal position which MIDWAY has built. Please understand the fact that the first Galaxian Agreement which was made between MIDWAY and NAMCO was limited only to the use of the rights on Coin Operated Amusement games. *It was, of course, amended according to your request in order for MIDWAY to present a stronger front to our industry and to protect both copyright and trademark rights, in the U.S. and Canada.* MIDWAY requested the entire rights to the game, which NAMCO agreed and so granted. This Agreement became the format of the Pac-Man Agreement. *As you and Stan have indicated from time to time in the course of our discussions which took place in Tokyo, your office and elsewhere, MIDWAY was going to grant back the Pac-Man rights upon our request.* We are now so requesting and we are asking for your cooperation. (Emphasis Added)

A second document, a March 10, 1982 letter from NAMCO-AMERICA to MIDWAY further expounded upon the oral agreement, stating the reasons for it and the reason it was kept oral:

> I am sorry I am late with this letter, but this is to confirm our discussions held on February 22nd and 23rd regarding the return of the Pac-Man rights to NAMCO. As you know, at first MIDWAY was granted only the coin-operated rights to Pac-Man. Later on, at your request, we assigned to you all the rights to Pac-Man in the Western Hemisphere, so that you would have a stronger case to go after Pac-Man infringers. *We did this with a verbal agreement that if at any time NAMCO requested the return of the rights, MIDWAY would do so.* In fact, at least on three separate occasions, either you or Stan re-affirmed MIDWAY's intention to return the rights to NAMCO, upon NAMCO's request and without payment by NAMCO.
>
> *The reason for having an oral agreement rather than a written one, was merely based on your argument to us saying, "that any written agreement of such kind may weaken MIDWAY'S rights against infringers, who attempted to copy the game."* (Emphasis Added)

Obviously, NAMCO was not a disinterested assignor of "the entire right, title and interest" to the subject copyrights, one with no stake in infringement litigation in the United States. Rather, it claimed to be MIDWAY's partner, albeit hidden, in that litigation:

> As your partner in the process of this litigation, we do feel that we have a right to be kept informed of the current status of litigation and to catch up on the results of past litigation.

What was so startling about these letters was that they were completely contrary to what MIDWAY had told the earlier trial judge, to what it had previously sworn under oath to the Copyright Office and to what BANDAI's

counsel had been told by MIDWAY and by NAMCO's counsel during the course of the prior litigation.[1] *See* Point III, *infra.*

Obviously, if these facts had not been concealed, the outcome of the earlier litigation might well have been different. In the prior action, petitioners moved to add NAMCO as an indispensable party, suspecting that NAMCO had an interest in the litigation because it received royalty payments from MIDWAY. Petitioners believed that the assignment was not what it was purported to be (as later events conclusively proved), but could show nothing to overcome the definite assertions by MIDWAY and its attorneys that the assignment was complete and irrevocable. The District Judge, in the earlier action, in response to the motion to add NAMCO, said:

> If there is something defective bout [sic] the assignment, then you can defeat MIDWAY's case, can't you?
>
> If the assignment is not a legal or legitimate one, you prove it and win.

No statement was made by MIDWAY or its attorneys at that time or at any other time during the remainder of the

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[1]Noteworthy is that in its copyright registration form filed with the Copyright Office, MIDWAY asserted, under oath and subject to penalty for false statement pursuant to 17 U.S.C. § 506(e):

> NAMCO LIMITED assigned "the entire right, title and interest" in statutory copyright in the United States and in the Western hemisphere in and to a certain amusement game known as "Pac-Man" or "Puckman" in an ASSIGNMENT OF COPYRIGHTS dated October 10, 1980 (said ASSIGNMENT is being recorded concurrently with this application.

This statement, in light of the foregoing documents, was utterly false.

litigation about the existence of the oral agreement regarding the assignment nor did they reveal that NAMCO claimed that it was entitled to the return of the rights pursuant to that oral agreement.

Faced with MIDWAY's stonewall of silence, when the truth was contrary to what the District Judge was led to understand as to the assignment, the motion to add NAMCO as a party to the earlier suit was denied; thus, the conspiracy of NAMCO and MIDWAY to insulate NAMCO from compulsory discovery succeeded with the result that petitioners would not be able to discover facts as to whether Pac-Man and Galaxian were original works.

The submission of petitioners to the District Court in the present action overwhelmingly revealed the fabrication that had taken place in the earlier action. Nevertheless, the courts below placed the "sanctity" of a concluded lawsuit and a fraudulently obtained settlement agreement over the fundamental right, granted to all litigants by the Federal Rules of Civil Procedure, to "fully and fairly present its case" without fear of being precluded by the misconduct of its adversary. In so holding, the courts below have done a grave disservice to the proper administration of justice.

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REASONS FOR GRANTING THE WRIT

I

THE DECISION BELOW IS IN CONFLICT WITH THE DECISIONS OF THIS COURT AND OTHER COURTS OF APPEALS AS TO THE PROOFS NECESSARY TO PERMIT RELIEF FROM A JUDGMENT PROCURED BY FRAUD AND MISCONDUCT

Despite the overwhelming evidence of MIDWAY'S fraud and deceit (outlined in the Statement of the Case above) in procuring a settlement of the earlier infringement action, the District Court entered summary judgment against the petitioners; the Court of Appeals affirmed. Both courts noted that MIDWAY's deception was to be assumed true in the Rule 56 proceeding, but both held that petitioners' proofs did not demonstrate that MIDWAY's deception would have affected the outcome of the prior litigation (App. 8-12; App. 32, 35, 39). In short, the courts below refused to give petitioners the benefit of a reasonable inference from the essentially undisputed facts of deception, outlined above, (1) that the deception itself might have altered the outcome of the prior suit[2], or (2) that the deceptive conduct gave rise to an additional defense of unclean hands (regardless of how the true facts might have affected the outcome), or (3) that the decep-

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[2]For example, the trial judge's statement in the earlier action with regard to petitioners' suspicions as to the *true* assignment agreement conclusively supports that inference:

> If there is something defective bout [sic] the assignment, then you can defeat MIDWAY's case, can't you?
>
> If the assignment is not a legal or legitimate one, you prove it and win.

tion was merely the tip of a more heinous iceberg (*e.g.*, "*falsus in uno, falsus in omnibus*"). Certainly, the failure of the District Court, in the first instance, and the Court of Appeals, on review, to provide petitioners with the benefit of these reasonable inferences violates the standards of Rule 56. *United States v. Diebold, Inc.*, 369 U.S. 654 (1962). This Court has further cautioned against the entry of summary judgment in complex antitrust suits:

> We believe that summary procedures should be used sparingly in complex antitrust litigation, where motive and intent play leading roles, the proof is largely in the hands of the alleged conspirators, and hostile witnesses thicken the plot.

Poller v. Columbia Broadcasting System, Inc., 368 U.S. 464, 473 (1962). The failure of the courts below to apply these fundamental standards to this case is obvious and sufficient to require a remand without further study.

But the wrongness of the result reached below goes far beyond the mundane failure to correctly apply the precepts of Rule 56. Certainly, petitioners are mindful that this Court's jurisdiction, as stated by Chief Justice Taft, "was not conferred . . . merely to give the defeated party . . . another hearing." *Magnum Import Co. v. Coty*, 262 U.S. 159, 163 (1923). (As the amount of certiorari petitions filed with the Court increase annually, Chief Justice Taft's words take on new meaning.)

Here, however, the indifference, or disregard, which the lower courts have manifested toward certain decisions of this Court, as well as other courts of appeals, gives rise to the need for the application of this Court's certiorari jurisdiction so that the conflicts on these important questions involving the public interest may be resolved.

A noteworthy factor is that the importance of the issues urged herein is not limited solely to its importance to the petitioners, but moreover, has great importance to the public. *See, Rice v. Sioux City Cemetary*, 349 U.S. 70, 79 (1954). The public interest in the manner in which antitrust claims are decided, particularly in this case, where the victorious party, through deception and fraud, has obtained a monopoly, is obvious. *See, United States v. Singer Mfg. Co.*, 374 U.S. 174, 199-200 (1963) (White, J., concurring) and discussion of *Singer, supra* in Point II, *infra*. (Indeed, non-governmental persons or entities asserting antitrust claims are often spoken of as "private attorneys general.")

A. The Settled Law Applicable To The Reopening Of A Fraudulently Procured Judgment Requires Only An Indication That The Innocent Party Was Deprived Of A Full And Fair Opportunity To Present His Case

The dispute must be initially approached with this Court's statement in *Continental Ore Company v. Union Carbide & Carbon Corporation*, 370 U.S. 690, 707 (1962): "it is well settled that acts which are in themselves legal lose that character when they become constituent elements of an unlawful scheme."

Here, regardless of whether the individual acts themselves were legal or valid in character, they had the cumulative effect (and, inferentially, the purpose) of misdirecting the prior litigation. The results of those acts were: the suit was brought by an improper party; the necessary element of ownership was wrongfully established; an indispensable party was not made a litigant; and, ultimately,

the discovery process, so critical to the defense in the prior lawsuit, was frustrated. The scheme could hardly, in fact, have misdirected the prior litigation more. It thwarted the major procedural devices of relevant rules and statutes, and, in doing so, prevented the District Court in the earlier action, from properly fulfilling its fact finding role.[3] That these facts, and their results, should at least have been inferable on motion for summary judgment, and sufficient to defeat that motion, is quite patent. *See, Poller, supra.*

The question is essentially this: having been able to extract from the conspirators the fact that the assignment was not as described, under oath to the Copyright Office, and the trial judge and petitioners in the earlier action, is it now "inequitable for the victor to retain his advantage" in the settlement of the earlier action? *See, e.g., Publicker v. Shallcross,* 106 F.2d 949, 950 (3d Cir. 1939), *cert. den.* 308 U.S. 624 (1940). In answering affirmatively, the decisions of the courts below exalt the sometimes salutary policy favoring the finality of concluded litigation. But this Court clearly answered the same question in the negative in *Hazel-Atlas Glass Co. v. Hartford-Empire Co.,* 322 U.S. 238 (1944).[4]

In that case, Hartford-Empire, a glass company, had obtained a patent, after first having encountered insurmountable Patent Office opposition, through the addition to the record before the Patent Office of an article which

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[3]Moreover, as explained in Point II, *infra,* the activities in the prior litigation were part and parcel of a larger scheme in violation of the Sherman Act.

[4]*Hazel-Atlas* was criticized on entirely different grounds by this Court in *Standard Oil Co. of Cal. v. United States,* 429 U.S. 17 (1976).

referred to the item sought to be patented as "one of the two 'revolutionary devices' with which workmen skilled in bottle-blowing had been confronted since they had organized." *Id.* at 240. Unbeknownst to the Patent Office, the article, in fact, had been written by officials and attorneys for the applicant, Hartford-Empire, and, only upon their persuasion and payment of money, was it signed by a union officer. Hartford-Empire used that patent to bring an infringement action against Hazel-Atlas, which tried, but was unable to prove the fraudulent character of the article. Judgment was entered in favor of the patent holder, and Hazel-Atlas thereupon settled, paying to Hartford $1,000,000 and entering into licensing agreements with it. It was only after an antitrust prosecution brought by the United States against Hartford-Empire several years later, that the true nature of the fraud was revealed. Hazel-Atlas then sued to set aside the fraud and eventually accomplished that end in this Court.[5]

The parallels between the *Hazel-Atlas* case and this are striking; in each there was evidence of fraud in a court and in the obtainment of a statutory monopoly; in each there was an infringement suit with a decision in favor of the holder of the statutory monopoly, followed by a settlement in which the alleged infringer paid substantial sums of money and became the plaintiff's licensee; and in each there was eventual discovery of the fraud and a suit to set aside the prior agreements.

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[5]Interestingly, unlike the lower courts in this case (App. 10, 41), the Court did not hold it against Hazel-Atlas that it settled with the wrongdoer prior to such discovery.

Justice Black, in *Hazel-Atlas*, was very concerned lest any determined effort to subvert the administration of justice be successful. He focused very little upon the effect of the scheme,[6] but rather upon the scheme as an evil in itself:[7]

> [T]am[illegible]ng with the administration of justice in the manner indisputably shown here involves far more than injury to a single litigant. It is a wrong against the institutions set up to protect and safeguard the public, institutions in which fraud cannot complacently be tolerated consistently with the good order of society.

Id. at 246.

Justice Black did note that if the courts below had known of the fraud in the original infringement suit they would have been warranted in dismissing that action. *Id.* at 250. Here, too, if the trial judge in the prior action had been made aware of the misrepresentations made to him, he would have been justified in dismissing MIDWAY's prior action for that reason alone. As Professor Nimmer has written, a defense of unclean hands

> has . . . been recognized where the plaintiff misused the process of the courts by falsifying a court order, or by falsifying evidence, or where the copyright was procured by making fraudulent representations about authorship to the Register of Copyrights, or where plaintiff misrepresented to the court and to the opposing party the scope of his copyright, or where he obtained information as to the nature of defendant's work through unfair means.

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[6]"Doubtless, it is wholly impossible accurately to appraise the influence that the article exerted on the judges. But we do not think the circumstances call for such an attempted appraisal." 322 U.S. at 247.

[7]The courts below, in disregard of *Hazel-Atlas*, never focused upon the existence of fraud as an evil in itself, as a tampering with the administration of justice.

M. Nimmer, *Nimmer on Copyright*, Vol. 3, § 13.09[B]. If nothing more, the respondents' failure to disclose its secret oral agreement in the earlier action had the effect of depriving petitioners of an unclean hands defense.

The decision below also conflicts with *Rozier v. Ford Motor Company*, 573 F.2d 1332, 50 A.L.R. Fed. 914 (5th Cir. 1978), where the Court, faced with evidence that the defendant withheld documents in violation of a discovery order, set aside the prior judgment for the defendant, stating:

> Our system of civil litigation cannot function if parties, in violation of court orders, suppress information called for upon discovery. "Mutual knowledge of all relevant facts gathered by both parties is essential to proper litigation. To that end, either party may compel the other to disgorge whatever facts he has in his possession". *Hickman v. Taylor*, 329 U.S. 495, 507, 67 S.Ct. 385, 392, 91 L.Ed. 451 (1947).
>
> * * *
>
> The aim of these liberal discovery rules is to "make a trial less a game of blind man's bluff and more a fair contest with the basic issues and facts disclosed to the fullest practicable extent". *United States v. Procter & Gamble Co.*, 356 U.S. 677, 683, 78 S.Ct. 983, 986, 2 L.Ed.2d 1077 (1958). It is axiomatic that "[d]iscovery by interrogatory requires candor in responding". *Dollar v. Long Mfg., N.C., Inc.*, 561 F.2d 613, 616 (5th Cir. 1977).

Id. at 1345-1346. The Court in *Rozier* found that the defendant's manipulation of discovery in that case precluded the "fair contest" which the Federal Rules were intended to assure. Here, too, the prior litigation was little more than a process manipulated by respondents to preclude a fair contest.

Indeed, the decision below conflicts not only with *Hazel-Atlas* and *Rozier,* but also the Third Circuit's own decision in *Stridiron v. Stridiron,* 698 F.2d 204 (3d Cir. 1983). In that matter, a matrimonial action emanating from the Virgin Islands, relief was sought from a judgment pursuant to Rule 60(b)(3), based upon the plaintiff's misrepresentation in answers to interrogatories concerning a prior marriage. The Court of Appeals reversed and remanded the denial of the motion by the Territorial Court, concluding that it was sufficient that the suitor demonstrate that the wrongful conduct prevented him from "fully and fairly presenting his case." *Id.* at 207.

The Court went on to say that where a possible existence of fraud is manifest, a lower court should not lightly dismiss a later claim to redress the fraud:

> Thus, plaintiff's failure to provide information uniquely within his knowledge effectively foreclosed defendant from presenting her claim for annulment at trial. A court should not lightly countenance such an abuse of the discovery process. The possible existence of fraud was manifest in the circumstances here and faced with that, the Territorial Court should have conducted a hearing to determine the relevant facts.

Id. at 207.

If nothing else, the practical insulation of NAMCO, the creator of Pac-Man and Galaxian, and MIDWAY's "partner in the process of [infringement] litigation," from compulsory discovery in a case in which derivation was the prime defense, deprived petitioners of a full and fair presentation of its case. Accordingly petitioners ought to have been entitled to have the result of the prior litigation set aside, and, most certainly ought to have prevailed on the respondents' motion for summary judgment.

The fact that the judgments were based on the lower courts' failure to provide all reasonable inferencess and the failure to observe that *Hazel-Atlas* does not require a determination that defraud affected the outcome of the prior litigation, 322 U.S. at 247, requires the issuance of the writ of certiorari.

B. Regardless Of Whether Petitioners Were Denied A Full And Fair Opportunity To Present Their Case, They Certainly Demonstrated Below That Respondents' Fraud Actually Affected The Outcome Of The Prior Litigation

Whereas under the authorities cited above petitioners only had to show that they were denied "a full and fair opportunity" to present their case in the prior litigation, in certain areas petitioners were able to show, also, four actual effects which would have likely changed the result of that litigation if known.

(1) "Ownership": The Assignment Was Not Legal or Legitimate

The courts below found that if the existence of the oral agreement were known it would have been meaningless in the prior litigation, holding that assignments for litigation purposes only are valid. That holding is in obvious conflict with this Court's decision in *Crown Die & Tool Company v. NYE Tool & Machine Works*, 261 U.S. 24 (1923), where the Court, in an analogous patent setting, reviewed the purpose behind the grant of a patent monopoly, reviewed the property nature of a patent, and ultimately concluded:

> For the reasons given, we think the attempted assignment in this case carried no part of the title to the patent or interest in it; and therefore conferred

> no right to sue for damages for infringement of the patent after the execution of the instrument.

Id. at 39.[8]

The courts below distinguished *Crown Die & Tool*, noting the substantial money MIDWAY had made on Pac-Man, stating that the assignment was not just of litigation claims (App. 9). Yet MIDWAY would have made substantial monies as NAMCO's licensee for coin operated games. Further, it ignores, keeping in mind the judgment was entered via Rule 56, documents showing the purpose of the assignment was merely for litigation (*See*, Statement of the Case at 5-6, *supra*).

(2) "Indispensable Parties": If the True Agreement Were Known NAMCO Would Likely Have Been Joined In The Prior Action

In the prior action, the trial judge denied petitioners' motion to join NAMCO as an indispensable party. Query whether he would have decided the same way had he known that NAMCO had only loaned BANDAI the copyrights in Pac-Man and Galaxian for use in litigation, that NAMCO was still the owner of the copyrights under *Crown Die & Tool, supra*, and that NAMCO claimed and would ultimately receive monies directly as a result of that litigation? The answer should be self-evident.

According to the facts now known, NAMCO was a behind-the-scenes participant in the prior litigation; it just was not subject to rulings by the Court nor the compulsory processes of the Federal Rules of Civil Proce-

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[8]See also *Eden Toys, Inc. v. Florelee Undergarment Co., Inc.*, 697 F.2d 27, 32 n.3 (2d Cir. 1982) where the Court said: "We do not believe that the Copyright Act permits holders of rights under copyrights to choose third parties to bring suits on their behalf."

dure. At the very least, the newly discovered letters indicate that NAMCO was "claiming an interest in the copyright." Such information was withheld from the trial judge in the earlier action when he considered the joinder motion.

(3) Insulation of NAMCO From Discovery

The scheme, as a practical matter, prevented a complete and open inquiry into NAMCO, a Japanese entity not subject to third party discovery under the Federal Rules of Civil Procedure. If the prior trial judge had been apprised of NAMCO's interests and had joined it as a party, it is, at the very least, fair to say that discovery would have been more complete.

Further, in this action it was learned that TOMY, another Japanese toy company with an American subsidiary, believed Pac-Man was not an original work, inasmuch as it was substantially similar to a previously marketed TOMY product. That position was kept secret in the prior litigation, however, after cross licensing agreements were entered into between MIDWAY and TOMY, agreements whereby TOMY profited in an amount greater than MIDWAY. In light of TOMY's position that Pac-Man was a derivative work, and in light of the agreements between MIDWAY and TOMY both to keep TOMY's position quiet and to cross license each other to TOMY's financial benefit, a reasonable inference may have been drawn that the secret oral agreement was designed to impede efforts to discover Pac-Man's actual source of creation.

(4) The Effect of Secrecy Itself

The courts below, in assessing the oral agreement, ignored its secrecy. It considered how the agreement may

have affected the litigation had NAMCO and MIDWAY been open about their relationship. Making that assumption, the courts below determined that neither standing nor ownership would have been different and therefore the litigation was unaffected. But the fact of the matter is that NAMCO and MIDWAY were not open.

Concealment, and the false swearing that went along with it, could have constituted unclean hands, and it also could have indicated the knowing existence of an unlawful scheme. *See, e.g., Music Research Inc. v. Vanguard Recording Society*, 547 F.2d 192, 195 n. 5 (2d Cir. 1976). Further, it may very well have had a broader effect. Every trial lawyer knows that one aspect of his case, be it negative or positive, can affect or infect the remainder. The jury charge of *falsus in uno, falsus in omnibus* is one aspect of the recognition that cases are not compartmentalized.

Knowledge by the prior trial judge that there were secret agreements and misrepresentations may very well have colored his view on the issues that were before him.

II

THE RESULT REACHED BY THE COURTS BELOW IGNORES THIS COURT'S PRIOR RULINGS THAT THE SETTLEMENT OF THE PRIOR LAWSUIT ITSELF WAS PART AND PARCEL OF AN OVERALL SCHEME IN VIOLATION OF THE ANTITRUST LAWS OF THE UNITED STATES

NAMCO's letter of March 10, 1982 (*supra* at 6) makes it clear, at least for purposes of Rule 56, that the assignment of NAMCO's rights to Pac-Man and Galaxian

was for litigation purposes. Previously MIDWAY, a company which manufactured and distributed coin-operated games, had an exclusive license solely for that field of use. The assignment of supposedly complete rights was to enhance MIDWAY's litigation position which, at the same time, resulted in NAMCO's insulation from discovery. Such an assignment is violative of 15 U.S.C. § 1. *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963).

The decision below, however, completely ignores *Singer*. That case involved the assignment of patents by a Swiss company, Gegauf, and an Italian company, Vigorelli, to Singer, an American company, for the purpose of Singer's initiation of infringement proceedings in order to keep out Japanese competitors. The Court held that this entwinement between the three companies in order to exclude others constituted a combination or conspiracy which violated Section 1 of the Sherman Act.

The illegal conduct in *Singer* was the joint action to exclude competitors. The Court summarized the Government's contention which the Court accepted after reviewing the record:

> What is claimed here is that Singer engaged in a series of transactions with Gegauf and Vigorelli for an illegal purpose, i.e., to rid itself and Gegauf, together, perhaps, with Vigorelli, of infringements by their common competitors, the Japanese manufacturers. The Government claims that in this respect there were an identity of purpose among the parties and actions pursuant thereto that in law amount to a combination or conspiracy violative of the Sherman Act.

374 U.S. at 189. This method of avoiding Japanese competition was to have all infringement actions conducted by Singer, an American company best situated to do so.

The parallels between *Singer* and this case are many. In both there was an assignment of monopoly rights from foreign companies to an American company for the joint purpose of excluding infringers. In both the actual assignment was something less than an arm's leng ' business deal. In *Singer* the Court found that Gegauf had assigned its patent for a totally inadequate consideration, while here the assignment was a fiction altogether. Both assignments merely facilitated uniform exclusionary action rather than being significant in and of themselves.

While there are some distinguishing factors between this case and *Singer*, i.e., the latter involves a patent rather than a copyright; the dealings between the Singer parties are more complex than here; in *Singer* there was a patent interference proceeding which was settled as part of the overall arrangement. Each of these distinctions, however, is without significance.[9] Indeed Justice White, in his concurring opinion, states that each aspect of the *Singer* case, the conspiracy to exclude Japanese competition from the market *and the improper settlement of the interference action*, is sufficient by itself to find a violation of 15 U.S.C. § 1.

The case against MIDWAY is, in fact, stronger than *Singer*. The Court in *Singer* never revealed whether Sing-

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[9]This Court has stated that "[c]ertainly the rights of the copyright owner are no greater than those of the patentee." *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 143 (1948).

er had actually enforced the patents against the Japanese infringers, while here the enforcement has been vigorous and successful. In fact, competitors have been forced to become licensees of MIDWAY on terms extremely favorable to MIDWAY. Here the conspiracy has been both to exclude competition and at the same time expand the conspirators' power over the alleged infringers. The release obtained was part and parcel to that conspiracy. Moreover, the friendly disposition of the patent interference matter in *Singer* is not without its counterpart in NAMCO-MIDWAY's activities. MIDWAY's swap with TOMY of a trademark assignment for a copyright license and trade-mark grantback license resulted in buying off any claims by TOMY. Additionally, here, unlike in *Singer*, the conspiracy has operated through a fraud on the Copyright Office, as well as a fraud on the court and litigants. Such activities reveal the depth of the exclusionary intent of the conspirators much more so than was revealed in *Singer*.[10]

That the present case was decided contrary to *Singer* requires the issuance of the writ. *See, e.g., Henderson v. Kibbe*, 431 U.S. 145, 152 (1977); U.S. Sup. Ct. R. 17.1(b).

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[10]The use of litigation as a tool to destroy competition has, in itself, been held to be violative of the antitrust laws. *See, e.g., California Motor Transport v. Trucking Unlimited*, 404 U.S. 508 (1972). If the litigation and the manner in which the prior action was litigated were used for the purpose of ensuring to NAMCO and MIDWAY an undeserved statutory monopoly, then that litigation, under the above cases, would be a tool for violation of the antitrust laws. The practical insulation of NAMCO from compulsory discovery coupled with TOMY's position on derivation as well as MIDWAY's dealings vis-a-vis TOMY, ought to have led to that inference, pursuant to Rule 56, of improper conduct.

III

NAMCO'S PARTICIPATION IN THE FRAUD SUBJECTS IT TO IN PERSONAM JURISDICTION

While the courts below correctly found that NAMCO could not hide behind the settlement agreement in the prior action (since NAMCO was not a party to it), the courts below erroneously determined that NAMCO had not committed a fraud in New Jersey and thus the District Court could not exert *in personam* jurisdiction over it. Obviously, NAMCO's fraudulent conduct was no less than MIDWAY's. Indeed, when petitioners' counsel sought to ascertain the nature of the agreements between MIDWAY and NAMCO in the earlier action, NAMCO's attorney replied, "we are prepared to stipulate that the understanding agreement between the parties is as stated in writing". That, of course, was false.

CONCLUSION

For these reasons, it is respectfully requested that a writ of certiorari issue to review the judgment and opinion of the Court of Appeals for the Third Circuit.

Respectfully submitted,

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In the United States Court of Appeals

FOR THE THIRD CIRCUIT

Nos. 84-5884 and 85-5355

BANDAI AMERICA INCORPORATED,
a New Jersey Corporation

and

BANDAI COMPANY, LTD., a Japanese Corporation,
and BANDAI OVERSEAS CORPORATION, a Japanese
Corporation now merged into
BANDAI COMPANY, LTD.,

Involuntary Plaintiffs

v.

BALLY MIDWAY MFG. CO., an Illinois
Corporation, NAMCO, LTD., a Japanese
Corporation, NAMCO AMERICA, INC., a
California Corporation

Bandai America Incorporated and
Bandai Company, Ltd.,

Appellants

(D.C. Civil No. 83-2740)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

Argued: August 13, 1985
Before: ADAMS, GIBBONS and WEIS,
Circuit Judges

(Opinion Filed: October 10, 1985)

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OPINION OF THE COURT

GIBBONS, *Circuit Judge:*

Bandai America Incorporated and others (Bandai) appeal from a summary judgment in favor of Bally Midway Mfg. Co. (Bally), Namco Ltd. and Namco America, Inc. (Namco), and Coleco Industries, Inc. (Coleco) in Bandai's action for relief from a 1982 settlement and judgment and for relief under the Copyright Act, the Sherman Antitrust Act and other statutes.[1] Bandai also appeals from an order that attorneys fees will be awarded against it. We affirm the summary judgment on liability but dismiss the appeal from the order that attorneys fees will be awarded.

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[1] Since the Complaint seeks relief under the Copyright Act and the Sherman Act, the district court had jurisdiction pursuant to 28 U.S.C. §§ 1337, 1338 (1982). It also had ancillary jurisdiction over the claim that the prior judgment should be set aside. Pacific Railroad v. Missouri Pacific Railroad, 111 U.S. 505, 522 (1884).

I.

On November 20, 1981, Midway and Coleco brought suit in the United States District Court for the Northern District of California against Bandai, contending that Bandai's sale of two video games infringed Midway's copyrights and trademarks covering "the Pac-Man" and "Galaxian" video games, of which Coleco was a licensee. On July 22, 1982 that action was transferred to the District of New Jersey which granted partial summary judgment against Bandai. *Midway Manufacturing Co. v. Bandai-America, Inc.*, 546 F. Supp. 125 (D.N.J. 1982). Thereafter the parties to the action entered into a settlement agreement and license agreement, which was executed on August 27, 1982. They stipulated that Midway's copyrights were valid. Bandai took a license, under which it agreed to pay for past infringements and future sales at a royalty of $6.98 per game unit. Bandai also released Midway and Coleco

> from any and all claims, causes of action, or demands, of whatever nature, anticipated or unanticipated, known or unknown, including without limitation all claims, causes of action, or demands which are contained in, may have been asserted in, may arise out of, or be in any way connected with, any of the matters referred to in any of the pleadings, records, or papers of record in this Action and all claims, causes of action, or demands for alleged violations of any of the patent laws, antitrust laws, or unfair trade practices laws, including the Copyright Act and Landham Act, with respect to the manufacture, use, sale, or marketing of the products of Midway or Coleco, or any of them.

Joint Appendix 152. Bandai agreed further:

> Bandai acknowledges that they may hereafter discover facts in addition to or different from those

> which they now know or believe to be true with respect to the subject matters of this release but that it is their intention to, and they do hereby, full, finally and forever settle and release any and all claims, demands and causes of action, known and unknown, suspected and unsuspected, of every kind and nature whatsoever, which now exist, may hereafter exist, or may heretofore have existed with respect to the subject matters of this release; in furtherance of such intention, Bandai acknowledges that the release herein given shall be and remain in effect as a full and complete general release, notwithstanding the subsequent discovery or existence of any such additional or different facts.

Joint Appendix 152. The parties to the agreement also agreed to file an order dismissing the pending action. Such an order was entered on November 3, 1982. It provides that the action is dismissed without prejudice, and that, subject to the terms and conditions of the settlement agreement, each party bears its own costs and attorneys fees.

Namco is the Japanese creator of the Pac-Man and Galaxian video games. Namco was not a party to the 1981 action, and the settlement agreement provides: "Nothing in this release shall be construed as constituting a release of Namco Company Ltd. or its subsidiaries and affiliates." Joint Appendix 152.

In July 1983, Bandai filed the instant action against Midway, Coleco and Namco seeking relief under the Copyright, Antitrust and other state and federal laws. Recognizing that it had released all possible claims in the August 27, 1982 settlement agreement, which resulted in the dismissal of the prior action, Bandai also sought relief from that settlement and the resulting judgment on the ground

of fraud. Midway and Coleco counterclaimed for attorneys fees on account of Bandai's breach of the settlement agreement. The district court granted summary judgment against Bandai on its claim for relief from the judgment. It also granted summary judgment against Bandai on all of its other claims on the ground that they were barred by virtue of the 1982 settlement agreement and judgment. The court directed that the summary judgments in favor of Midway, Coleco and Namco be entered as final judgments pursuant to Fed. R. Civ. P. 54(b). The court also ordered that the application for an award of attorneys fees shall be made by a separate motion. Thus, the district court's grant of summary judgment as to liability does not determine what fees, if any, shall be awarded. Thereafter, however, the court considered the fee applications, and in a separate order on May 7, 1985 ruled that Midway and Coleco would be awarded fees in an amount to be determined. No Rule 54(b) determination is included in the May 7, 1985 order.

II.

Bandai concedes that it cannot proceed with its other claims against Midway and Coleco unless it first succeeds in reopening the 1982 settlement and judgment. It claims, however, that the district court erred in entering summary judgment in favor of Midway and Coleco because there are material issues of disputed fact with respect to the claim that the settlement and judgment were procured by fraud.

Bandai's fraud claim is predicated upon certain correspondence which it discovered subsequent to August 27, 1982. Those letters can be read to suggest that although

Namco and Midway had a written license agreement for the Pac Man and Galaxian games in the United States and the western hemisphere, they had an oral agreement that at any time Namco requested the return of the licensed rights Midway would return them. Bandai also relies on representations made by Midway's attorney, during the course of a deposition of the President of Namco, that the understanding between Namco and Midway is as stated in writing. Thus, Bandai urges, it was lulled into the belief that Midway was the owner of the disputed rights, and did not explore a potential defense to the infringement action.

For purposes of summary judgment the district court drew an inference from the exhibits and the deposition that Namco had the right to recapture the licensed rights and that Midway had frustrated Bandai's discovery of that fact. Our review of a grant of summary judgment is plenary, and we draw the same inference. Thus the legal issue we must decide is, assuming Namco had recapture rights which Midway took steps to conceal, whether Bandai is entitled to relief from the settlement and judgment.

Whether we approach Bandai's claim as an action to set aside a release procured by fraud, or as a separate action for relief from a judgment, or as a Fed. R. Civ. P. 60(b)(3) motion, we find the tendered proofs offered by Bandai to be legally insufficient. We recognize that an attorney's deliberate attempt to mislead the court may be such a fraud as will permit the reopening of a judgment. *Hazel-Atlas Glass Co. v. Hartford Empire Co.*, 322 U.S. 238, 245-46 (1944), *questioned on other grounds, Standard Oil Co. of California v. United States*, 429 U.S.

17, 18 n.2 (1976). We also realize that in this circuit no significance is attached to the distinction, sometimes articulated in the caselaw, between intrinsic and extrinsic fraud. *Publicker v. Shelleross*, 106 F.2d 949 (3d Cir.), *cert. denied*, 309 U.S. 624 (1939); *Schum v. Bailey*, 578 F.2d 493, 499 (3d Cir. 1978) (Gibbons, J., concurring). In *Publicker v. Shelleross* this court set aside a settlement agreement because of perjured testimony. For purposes of this case we perceive no difference in the quality of proof required for relief from a settlement agreement and that required for relief from a judgment. Both involve the important element of finality in the disposition of litigation.

Relying on *Stridiron v. Stridiron*, 698 F.2d 204, 207 (3d Cir. 1983), Bandai urges that it has satisfied the burden of showing that it was prevented by the misconduct of Midway from "fully and fairly presenting [its] case." In *Stridiron*, however, the misrepresentations relied upon were clearly material to the outcome of the litigation. Moreover, in *Stridiron* there was no indication of neglect on the part of the moving party in pursuing the facts. Bandai's proofs are lacking in both of these respects.

Bandai urges that Namco's recapture rights were material in that such rights would have deprived Midway of standing, in the first action, to sue for infringment. Bandai's legal position is simply wrong. A transfer of copyright ownership is

> an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

17 U.S.C. § 101 (1982). Namco's recapture rights, if they exist, merely limit the time of Midway's license. Moreover, both the legal and the beneficial owners of copyrights have standing to sue infringers. 17 U.S.C. § 501(b). Midway, as assignee, was the legal owner, and had standing in this capacity despite the beneficial owner's right to have legal ownership reassigned. *See Williams & Wilkins Co. v. United States*, 172 U.S.P.Q. 670, 674-76 (Ct. Cl. 1972), *rev'd on other grounds*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd by an equally divided court*, 420 U.S. 376 (1975) (publisher of medical journals has standing to assert copyright infringement although third party reserves the right to have copyright assigned); *Model Recitfier Corp. v. Takechiko International*, 220 U.S.P.Q. 508 (C.D. Cal. 1982), *aff'd.* 221 U.S.P.Q. 502 (9th Cir. 1983) (assignment of trademark subject to termination on condition subsequent is valid).

Bandai urges that *Crown Die & Tool Co. v. Nye Tool and Machine Works*, 261 U.S. 24 (1923), suggests a different rule. In *Crown Die & Tool* the Supreme Court held that an assignment by a patent owner of the right to sue one particular infringer did not give the assignee standing to sue for infringement. The court reasoned that "the right to exclude others conferred in a patent can only be conferred upon one who has the common law right to use, make and vend." *Id.* at 39. Assuming arguendo that *Crown Die & Tool* would apply to copyrights and trademarks, it has no application to Midway, which received not merely an assignment of the right to sue infringers, but also the exclusive right to use the disputed copyrights in the western hemisphere.

Moreover, Bandai's tendered proofs do not establish that Midway's fraud prevented it from obtaining the facts about Bandai's recapture rights. Bandai chose to settle the first action even after the district court denied Midway's motion for summary judgment on Bandai's contention that the work covered by the copyright was derivative. In settling it surrendered the right to pursue additional discovery, and as noted in Part I above, acknowledged in the settlement agreement that it might thereafter discover additional facts. The record does not support the inference that Bandai's decision to relinquish further discovery was causally related to any alleged misrepresentation by counsel for Midway.

One other contention raised by Bandai deserves mention. It urges that the district court erred in approving a magistrate's bifurcation order that the fraud issue would be disposed of first, and that discovery would be limited, initially, to the fraud issue. Bifurcation orders and orders controlling the order of discovery are reviewed for abuse of discretion. *See Franklin Music Co. v. American Broadcasting Companies*, 616 F.2d 528, 538 (3d Cir. 1979); *Lis v. Robert Packer Hospital*, 579 F.2d 819, 824 (3d Cir.), *cert. denied*, 439 U.S. 955 (1978). The district court exercised the discretion under Fed. R. Civ. P. 42(b) to bifurcate issues "when separate trials will be condusive to expedition and economy." The ruling was clearly within the range of the court's discretion. The limitation on discovery permitted Bandai to explore all that Midway did to mislead either the parties or the court in the first lawsuit. Bandai has failed to show any prejudice from the limitation imposed.

II.

The district court, in granting summary judgment for Namco, assumed that the action against Namco is barred by the settlement and judgment in the first action. We do not agree that Namco can rely on either.

Settlement agreements involve claim preclusion, not issue preclusion. *United States v. International Building Co.*, 345 U.S. 502, 505-05 (1953). In subsequent litigation between the parties to a settlement agreement resulting in a consent decree, litigation of issues resolved in the agreement is precluded. *Interdynamics, Inc. v. Firma Wolf*, 653 F.2d 93, 97-98 (3d Cir.), *cert. denied*, 454 U.S. 1092 (1981). *See* E. Wright, A. Miller & E. Cooper, 18 Federal Practice and Procedure, § 4443 n.23. That rule has no application, however, to Namco, which was not a party to the settlement agreement. Indeed Namco was expressly excluded from the release which that agreement contains. Thus Namco cannot use the settlement agreement or the judgment as a basis for estopping Bandai from pursuing the causes of action pleaded against it.

Namco, however, moved to dismiss the action against it for lack of personal jurisdiction. Service was accomplished pursuant to Fed. R. Civ. P. 4(e) and N.J. Court Rule 4:4-4, which authorizes the exercise of personal jurisdiction over nonresident corporations "to the uttermost limits provided by the United States Constitution." *Avdel Corp. v. Mecure*, 58 N.J. 264, 268 (1971). Even though the underlying cause of action is based on federal law this court has held that the focus of inquiry must be upon the defendant's relationship to the state in which the forum court sits rather than to the United States.

DeJames v. Magnificance Carriers, Inc., 654 F.2d 280 (3d Cir.), *cert. denied*, 454 U.S. 1085 (1981).[2]

It is undisputed that neither Namco nor any of its subsidiaries which are named as parties has a general presence in New Jersey. Thus Namco's amendability to suit in that state depends upon whether there are enough contacts with New Jersey arising out of the Namco transactions pleaded in the complaint to justify the assertion of personal jurisdiction over Namco. *Reliance Steel Products v. Watson, Ess, Marshall*, 675 F.2d 587, 588 (3d Cir. 1982). The district court correctly observed that the only transactional contacts between Namco and New Jersey alleged by Bandai involved its alleged participation elsewhere in Midway's effort to perpetrate a fraud on the district court and Bandai by concealing Namco's recapture rights. It nevertheless declined to dismiss for lack of personal jurisdiction.

We hold that Namco's motion to dismiss for lack of personal jurisdiction should have been granted. The sole basis for denying it relied upon by the district court was the existence of a material issue of disputed fact about Namco's recapture rights. We have held in Part II above that this misdirection was immaterial since as a matter of law it would not affect Midway's standing to sue Bandai for infringement. Assuming that Namco knew of and participated in the claimed fraud, the effect of that participation upon the lawsuit in New Jersey, as a matter

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[2] While this court feels compelled to follow the precedent of *DeJames* it should be noted that the proposition for which it stands does not command universal acceptance. *See DeJames* 654 F.2d at 292-93 (Gibbons, J., dissenting).

of law, cannot support transactional long-arm jurisdiction because that effect was legally immaterial to the lawsuit.

IV.

The summary judgment in favor of Midway and Coleco on the merits of the complaint will be affirmed. The summary judgment in favor of Namco will be affirmed on the ground that the district court lacks in personam jurisdiction over the Namco defendants. Although the parties have briefed the propriety of an award of counsel fees against Bandai, the summary judgment order dated May 7, 1985 makes no fee award. It is therefore interlocutory and unappealable. Thus we do not address the propriety of the ruling that fees in some amount must be paid. *See West v. Keve,* 721 F.2d 91, 94-97 (3d Cir. 1983); *DeLong Corp. v. Raymond Intern. Inc.*, 622 F.2d 1135, 1138-39 n.3 (3d Cir. 1980).

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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

CIVIL ACTION No. 83-2740

BANDAI AMERICA INCORPORATED, a New Jersey Corporation,

Plaintiff,

vs.

BALLY MIDWAY MFG. CO., an Illinois Corp., NAMCO, LTD., a Japanese Corp., NAMCO AMERICA, INC., a California Corp., and COLECO IND., INC., a Connecticut Corporation,

Defendants.

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DEBEVOISE, District Judge

I. *Introduction:*

Defendants, Bally Midway Mfg. Co. [Midway] Namco LTD., and Namco America, Inc. (collectively "NAMCO") move for summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure on grounds that they did not commit a fraud upon the court or upon the plaintiff, Bandai America Incorporated ("Bandai") in prior copyright infringement litigation between the parties. Defendant Coleco Industries ("Coleco") joins in this motion and also asserts as an independent ground for summary judgment that Bandai has failed to adduce any evidence supporting the claims against Coleco.

II. *FACTUAL AND PROCEDURAL HISTORY:*

The instant litigation has its genesis in a prior action for copyright and trademark infringement by Midway, the owners of copyright registrations and trademark rights in two audiovisual games named Pac-man and Galaxian, against Bandai. In the course of that action, Judge Meanor issued a memorandum opinion reported at 546 F. Supp 125 (D.N.J. 1982), containing the following determinations: First, summary judgment was granted to Midway on the issue of the validity of Midway's copyrights in the Pac-man and Galaxian games. Second, summary judgment was granted to Midway on the issue of whether Bandai copied Midway's Pac-man and Galaxian games based on their obvious and otherwise inexplicable similarities, although the question whether the copying was an unlawful appropriation sufficient to constitute infringement was reserved for trial. Third, summary judgment was granted to Midway on the claim that Bandai's use of the name "Galaxian" infringed Midway's "Galaxian". Finally, a preliminary injunction was issued against Bandai's allegedly infringing products on the ground that Midway was likely to prevail at trial on both its copyright and trademark claims.

After entry of partial summary judgment for Midway and the issuance of the preliminary injunction, the parties executed a settlement and license agreement on August 27, 1983. Pursuant to this agreement, Bandai generally released Midway and Coleco from all claims "anticipated or unanticipated, known or unknown . . . arising out of or connected with the pleadings . . . notwithstanding the subsequent discovery or existence of any such additional or different facts." This agreement

expressly reserved Bandai's rights against Namco-Japan or its subsidiaries and affiliates.

The Settlement agreement also provided for dismissal of the action, which was so ordered by Judge Meanor. Despite the terms of the general release, Bandai commenced the instant action against Midway, Coleco and Namco on July 26, 1983 for alleged violations of the antitrust laws, RICO claims and various other causes of action. The crux of the complaint is that defendants misrepresented the nature of their respective interests in the video games to the copyright office and to the court, thereby fraudulently procuring copyright certificates, partial summary judgment, a preliminary injunction and the settlement agreement.

Absent fraud by Midway in procuring the partial summary judgment and settlement agreement, the general release contained in the settlement agreement, in conjunction with the res judicata effect of the prior judgment, would bar the present complaint. In view of this fact, Bandai's claims of fraud on the court and in procuring the settlement agreement have been bifurcated from the remaining claims. *See* 12/5/83 order.

The facts relied upon by Bandai in support of its charge that Midway fraudulently procured the partial summary judgment and settlement agreement in the prior litigation may be summarized as follows: Bandai identifies two documents which suggest that, contrary to Midway's representations to the court in the prior litigation, Namco did not assign all right, title and interest in the Pac-man and Galaxian copyrights to Midway. Rather, the assignments of these copyrights were subject to an

oral agreement that Midway would return the copyrights to Namco upon request. The first document cited by Bandai is a letter dated December 24, 1981 from Hideyuki Nakajima, the President of Namco-America, to David Marofske, the President of Midway. In this letter, Nakajima writes that in order for Midway to protect copyright and trademark rights in the United States and Canada, Namco granted the entire right to the Galaxian and Pac-Man games to Midway. Nakajima reminded Marofske, however, of Midway's oral promise to grant back these rights upon request by Namco.

The second document relied upon by Bandai is a letter dated March 10, 1982 from Dennis Wood, a Namco officer, to David Marofske, the president of Midway. Wood states that Midway and Namco had entered into a oral agreement whereby Midway would return the rights to the games upon Namco's request and without payment by Namco. The reason for having an oral agreement rather than a written one, Wood explained, was in order to avoid weakening Midway's rights against infringers.

At no time did Midway or its attorneys inform the court of the apparent dispute with Namco over the existence of the oral agreement. Bandai suspected in the prior litigation, however, that Namco might be entitled to return of the copyrights. Thus, in response to Midway interogatory number 3 filed on or about January 14, 1982, Bandai stated,

> Although a document was executed purportedly to effect the 'assignment, referred to in [the] request for admission . . . there is also in force between NAMCO and MIDWAY a right of reversion of the copyright in issue to NAMCO effective upon or sub-

> sequent to termination of NAMCO's licensing arrangement with MIDWAY. As a matter of law, this is not an assignment but rather a mere license, which does not vest Midway with standing to prosecute claims of infringement of the copyright in its own name under the Copyright Act.

Despite this suspicion, Bandai failed to pursue every avenue of discovery on this issue. For example, at deposition Bandai's counsel was specifically invited to question the President of Namco and Chairman of the Board of Namco America about the possible existence of any oral agreements by Midway' counsel:

> Mr. Meyer: May I make a suggestion Mr. Rhodes, why don't you ask the witness [the President of Namco Ltd.] whether there are any agreements between the parties pertaining to Midway's rights. (Reply Ex. G).

Bandai's counsel did not, however, pose the invited question. In March 1982, four months before partial summary judgment was granted, Namco abandoned its position that it was entitled to return of the copyrights upon request.

According to Bandai, the existence of the oral agreement shows that the written copyright assignments from Namco to Midway were a sham. The effect of the written assignments was to entitle Midway to the issuance of copyright certificates and to confer standing on Midway to bring infringement suits such as the one against Bandai. Bandai postulates that the purpose of the sham written assignments was to insulate Namco from compulsory discovery, which might have uncovered evidence that the games at issue were not original works but rather were derivative works entitled only to limited protection under the Copyright Act.

In order to bolster its argument that Midway attempted to obstruct discovery of the relationship between Midway and Namco and to insulate Namco from discovery, Bandai refers to a third letter dated July 2, 1982 by Edward O'Brien, Esq., a lawyer for Tomy, another licensee of Midway, to A. Sidney Katz, Esq., a Midway attorney. In this letter, O'Brien writes, in part:

> You may want to keep in mind that Mr. Rhodes is attempting to gain access to and attempting to learn information relative to Tomy's agreements with Midway. As per your earlier correspondence, we definitely will keep from him one document pertaining to Midway's relationship to Namco we happen to have a copy of. Do you have any thoughts as to how far I should go in attempting to keep details of the arrangements between Tomy and Midway from him?

Midway explains that the "one document pertaining to Midway's relationship to Namco" referred to in the letter was a copy of the November 4, 1980 license agreement between Midway and Namco. This document, however, had already been produced to Bandai during the course of discovery in the prior litigation. Furthermore, Midway vehemently disputes Bandai's interpretation of this letter as an indication of Midway's attempt to obstruct discovery in its prior litigation with Midway and to conceal agreements between Midway and Namco. According to Midway the statement "as per your earlier correspondence, we definitely will keep from [Rhodes] the one document . . . we happen to have a copy of", expresses O'Brien's assurance that he would comply with the terms of a prior agreement concerning the exchange of documents in the course of settlement negotiations between Midway and Tomy. Before engaging in these settlement discussions, Katz

and O'Brien decided by letter dated August 24, 1981 that any document disclosed would be held in confidence and only revealed to others on a non-confidential basis in response to judicial process. Consequently, the negative inferences drawn by Bandai from the language of the O'Brien letter appear to be incorrect.

For purposes of its present motion, Midway concedes the existence of the oral agreement with Namco but disputes the purpose imputed by Bandai for this oral agreemnt.[1]

This disputed issued does not preclude the entry of summary judgment, however, since the purpose of the purported oral agreement is irrelevant to the disposition of Midway's motion. The question here is whether the failure of Midway to inform the court in the prior litiga-

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[1] The purpose set forth by Bandai for the sham written assignments is nonsensical. First, despite the fact that Namco was not a party to the prior litigation, counsel for Bandai took the depositions of five Namco employees in Japan. Secondly, if Bandai had wanted additional discovery of Namco, means were available to obtain it. Namco-America is a California Corporation and was subject to compulsory discovery by way of subpoena under Fed. R. Civ. P. 45. Similarly, Namco Ltd., the Japanese parent, was subject to compulsory discovery by application to appropriate Japanese officials. Thirdly, in addition to the fact that Namco could not avoid compulsory discovery merely by assigning the copyrights to Midway, Judge Meanor expressly considered the very issue that Bandai argues Namco sought to hide: namely, the issue of the games' originally. In finding that the copyright certificates constituted *primia facie* evidence of the games' originality, Judge Meanor specifically reviewed both the allegedly pre-existing works presented by Bandai and deposition testimony of the Namco employees who created the games. 546 F. Supp. at 145, n. 19, 149 n. 28,150. Finally, it is logically inconsistent for the object of the conspiracy to be to insulate Namco from discovery when Namco requested that the copyrights be returned.

tion of the oral agreement by Midway to return the copyrights to Namco upon the latter's request rises to the requisite level of fraud to avoid the preclusionary effect of the doctrine of *res judicata* and the terms of the general release contained in the settlement agreement.

Discussion.

A. *SUMMARY JUDGMENT STANDARD:*

The standard for resolving a motion for summary judgment is set forth in Fed. R. Civ. P. 56 (c), which provides that the motion shall be granted if the evidence shows "that there is no genuine issue as to any maternal fact and that the moving party is entitled to judgment as a matter of law."

Although the moving party has the burden of establishing that it is entitled to summary judgement, the opposing party must present specific facts showing that there is a genuine issue for trial. Fed R Civ. P. 56 (e). Mere allegations, "gossamer inferences" or suspicions "are insufficient to defeat a motion for summary judgment". *Robin Construction Co. v. United States*, 345 F. 2d 610, 613-14 (3d Cir. 1965); *Caplan v. Roberts*, 506 F. 2d 1039, 1042 (9th Cir. 1974).

In deciding a motion for summary judgment, the court must draw factual inferences in favor of the non-moving party. However, such inferences must be reasonable in the context of the other evidence in the record. *Standard Oil Co. v. Dept. of Energy*, 596 F. 2d 1029, 1065 (Temp. Emer. Ct. App. 1978); *Tyler v. Vickery*, 517 F. 2d 1089, 1094, *reh. denied sub nom, Perry v. Sell*, 521 F. 2d

815 (5th Cir. 1975), *cert. denied,* 426 U.S. 940 (1976). Application of this rule is particularly relevant in the present case with respect to Bandai's assertion that the purpose and effect of the alleged fraud upon the court was to maintain Midway's standing and to insulate Namco from compulsory discovery. As discussed below, this assertion is improbable in light of existing law governing copyright ownership.

B. *Fraud upon the Court:*

Two methods are available to set aside a prior judgment allegedly obtained by fraud. The first method is by motion under Fed. R. Civ. P. 60(b)(3), which provides in pertinent part:

> On motion and upon such terms as are just, the court may relieve a party or his legal representative from a final judgment order or proceeding for the following reasons: . . . (3) fraud (whether heretofore denominated intrinsic or extrinsic), misrepresentation or other misconduct of an adverse party. . . The motion shall be made within a reasonable time and for reasons (1), (2), (3) not more than one year after the judgment, order, or proceeding was entered or taken. . . This rule does not limit the power of a court to entertain an independent action to relieve a party from a judgment, order, or proceeding, or to grant relief to a defendant not actually personally notified as provided in Title 28, U.S.C. § 1655, or to set aside a judgment for fraud upon the court.

Pursuant to Rule 60 (b) (3), motions may be brought within one year after the fraudulently obtained judgment or order, whether the fraud is denominated extrinsic or intrinsic. In the present case, Bandai has not chosen to pursue relief under this Rule but rather has employed the

second method of an independent action for fraud upon the court. In any event, relief under Rule 60(b)(3) is unavailable since Judge Meanor's partial summary judgment order was entered on July 22, 1982, and the present complaint was not filed until July 26, 1983, more than one year later.

Rule 60(b)(3) contains a "savings clause" which preserves the right to bring an independent action for fraud upon the court more than one year from the date of judgment. The Advisory Committee explained in the Notes to Rule 60 that "under the savings clause, fraud may be urged as a basis for relief by an independent action insofar as established doctrine permits." Courts and commentators have distinguished the independent action for fraud from motions under Rule 60(b)(3) explaining:

> When a court grants relief from a judgment or decree by a new trial or rehearing, or by one of the ancillary common law or equitable remedies or their modern substitute, a motion, it is exercising a supervisory power of the court over its judgment; but the original bill, or independent action, to impeach for fraud, accident, mistake, or other equitable ground is founded upon an independent and substantive equitable jurisdiction.

Indian Head Nat. Bank of Nashua v. Brunelle, 689 F. 2d 245, 249 (1st Cir. 1982) *quoting Bankers Mortgage Co. v. United States*, 423 F. 2d 73, 78-79 (5th Cir.), *cert. denied*, 399 U.S. 927, and 7 J Moore, *Moore's Federal Practice* ¶ 60, 36 at 602 (2d ed. 1982).

Any fraud in the presentation of a case to the court with the effect of hindering fair review of a claim or defense could plausibly be called "fraud upon the court". Such an expansive definition of "fraud upon the court",

however, would overwhelm the specific provision of rule 60 (b) (3) and render the one year limitation period for motions meaningless. In his treatise on Federal Procedure, Professor Moore explained this consequence of a broad reading of the term "fraud upon the court", stating,

> Since, then, then power of a defrauded court to grant relief is a sweeping plenary power that is not subject to any rigid time limitations as is a motion under 60(b)(3). . . It will be necessary at times to determine whether the fraud is fraud upon the court or some other species of fraud. . . And if a motion for relief is made that is within the time for relief applicable to 60(b)(3) a classification of the fraud is normally not necessary, for this clause authorizes relief on the basis of fraud in broad terms. But if the motion cannot be granted under 60(b)(3) because not timely, then it will be necessary to determine whether the fraud is fraud upon the court, and if "fraud upon the court" is not kept within proper limits but is ballooned to include all or substantially all species of fraud within 60(b)(3) then the time limitation upon 60(b)(3) motions will be meaningless. 7 Moore's Federal Practice 60.33 at 60-356.

The policy behind the one year limitation period for motions to set aside a judgment for fraud under Rule 60(b)(3) is to put an end to litigation at some point, even if evidence of fraud in the proceedings subsequently arises. *Roycer v. Ford Motor Co.*, 573 F. 2d 1332, 1338 (5th Cir. 1978). To avoid circumvention of the one year limitations period and to maintain the balance of equities contained in the rule, courts have narrowly defined the conduct constituting "fraud upon the court". *Great Coastal Exp. v. International Broth., Etc.*, 675 F. 2d 1349, 1356 (4th Cir. 1982), *cert. denied*, — U.S. —, 103 S. Ct. 764 (1983); *Ker*

wit Medical Products, Inc. v. N & H Instruments, 616 F. 2D 833, 836-37 (5th Cir. 1980); *Senate Realty Corp. v. Commissioner*, 511 F. 2d 929, 931-33 (2d Cir. 1975). Generally, the type of fraud which compels a court of equity to exercise its inherent power to set aside a prior judgment has been described as that which subverts the very integrity of the judicial process, thereby preventing the unsuccessful party from having a fair opportunity to present its case fully at trial. *7 Moore's Federal Practice* ¶ 60.33 at 50-360. Thus, "fraud upon the court" is typically confined to the most egregious forms of conduct, such as bribery of a judge or juror, improper influence exerted over the court by an attorney, and the involvement of an attorney (an officer of the court) in the perpetration of fraud. *United States v. International Telephone & Telegraph Corp.*, 349 F. Supp. 22, 29 (D. C. Conn 1972) *Aff'd without opinion* 410 U.S. 919 (1973); *Honneus v. Donovan*, 93 F.R.D. 433, 436 (D.C. Mass.) *aff'd*, 691 F. 2d 1 (1st Cir. 1982); *Kupferman v. Consolidated Research & Mfg. Corp.*, 53 F.R.D. 387, 389 (S.D.N.Y. 1971), *aff'd*, 459 F. 2d 1072 (2d Cir. 1972). Less egregious misconduct, such as nondisclosure to the court of facts allegedly pertinent to the matter before it, will not ordinarily rise to the level of fraud upon the court, *Budge v. Post*, 544 F. Supp. 370. 377 (N.D.TX. 1982), quoting *United States v. Intl. Tel. & Tel. Corp., supra*, 349 F. Supp. at 29.

As an example of "fraud upon the court" the 1946 Advisory Committee notes for Rule 60(b) cite *Hazel-Atlas Glass Co., v. Hartford-Empire Co.*, 322 U.S. 238 (1944). In that case the court found fraud upon the court because a bogus scientific article, written by the patentee and its attorneys to affect the outcome of a patent litiga-

tion, in fact influenced the decision of the court of appeals in holding for the patentee. The court stressed that the fraud was a "deliberately planned and carefully executed scheme to defraud not only the patent office but the Circuit Court of Appeals" involving the patentee's attorneys who were officers of the court. 322 U.S. at 245-46. Furthermore, the litigation concerned not only the private parties but also "issues of great public moment" associated with the legal monopoly afforded by a patent. *Id.* at 246.

Both Bandai and Midway discuss at length whether proof of extrinsic fraud is necessary to maintain a suit for fraud upon the court. Extrinsic fraud in obtaining a judgment means fraud collateral to the matter or question which was tried. While "fraud upon the court" has been characterized as a species of "extrinsic fraud", the court in *Hazel-Atlas* did not attempt to categorize the fraud at issue in that case as either intrinsic or extrinsic. *7 Moore's Federal Practice* ¶ 60.33 at 60-350 356; Moore's & Rogers, "Federal Relief from Civil Judgments," 55 *Yale L.J.* 623, 652 (1946). Whether or not proof of "fraud upon the court" must constitute extrinsic fraud, it is clear that the former category describes only a narrow set of unusual and exceptional circumstances. 11 Wright and Miller, *Federal Practice and Procedure* § 2868 at 239-413. Thus, in commenting upon the proposed Federal Rules of Civil Procedure, Moore and Rogers recognized that since Rule 60(b)(3) allowed motions for fraud within one year "while preserving without time limit the power of a court to set aside a judgment for fraud upon the court, importance in distinguishing the type of fraud will shift to

"fraud upon the court." Moore & Rogers, *supra*, *55 Yale L.J.* at 681.

Bandai argues that in this circuit the distinction between intrinsic and extrinsic fraud is inapplicable to independent actions to set aside a judgment. Consequently, Bandai further argues that this court may set aside the prior judgment and settlement agreement no matter what form the fraud took. In support of this argument, Bandai relies on *Publicker v. Shallcross*, 106 F. 2d 949 (3rd Cir. 1939) and the recent concurring opinion of Judge Gibbons in *Schum v. Bailey*, 578 F.2d 493 (3d Cir. 1978). In *Publicker*, the Third Circuit considered whether intrinsic fraud such as perjury was a sufficient ground to overcome a prior judgment. In holding that the perjured testimony of a corporation regarding its financial condition was insufficient to set aside the prior judgment in the case, the court stressed the factors showing the extrinsic nature of the fraud. Specifically, the court found that the alleged perjury was committed in a hearing characterized as non-adversarial since the receiver, who was an officer of the court and appointed to represent the creditors, made no effort to ascertain the truth of the testimony. The court then noted in *dicta* that if the Supreme Court were again to address the issue of whether proof of extrinsic fraud was necessary for a claim of fraud upon the court, it would reject the distinction between the two types of fraud. *Id* at 952. The Third Circuit's prediction was correct to a limited extent since Rule 60(b)(3), which was adopted several years after *Publicker*, abolished the distinction between intrinsic and extrinsic fraud for motions brought within one year of judgment.

In his concurring opinion in *Schum v. Bailey, supra,* Judge Gibbons analogized the issue before the court to an action for relief from judgment for fraud. He stated that since "the Supreme Court has not spoken since *Publicker,* . . . we are still bound by the prediction we made there. In this circuit the intrinsic or extrinsic nature of the fraud is irrelevant" 578 F. 2d at 506. The majority of the court declined to explore this issue, basing its decision on the lower courts' application of the wrong statute of limitations. *Id* at 499, n.6.

Adoption of the position advanced by Bandai and Judge Gibbons in *Schum v. Bailey, supra,* bears the risk of abolishing the distinction between intrinsic and extrinsic fraud for independent actions for fraud as well as for motions under Rule 60(b)(3). This result might upset the delicate balance reflected in Rule 60(b) between the two competing considerations of "the desire to preserve the finality of judgments and the incessant command of the court's conscience that justice be done in light of all the facts." *Budge v. Post, supra,* 544 F. Supp. at 380, quoting *Seven Elves, Inc. v. Eskenazi,* 635 F. 2d 396, 401 (5th Cir. 1981); *Bankers Mortgage Co. v. United States,* 423 F. 2d 73, 77 (5th Cir.), *cert. denied,* 399 U.S. 927 (1970). For this reason most courts have held that the extrinsic-intrinsic distinction survives in independent actions brought more than one year after the challenged determination. e.g. *Wood v. Mc Ewen,* 644 F. 2d 797, 801 (9th Cir. 1980); *Kupferman v. Consolidated Research & Mfg. Corp., supra,* 459 F. 2d at 1078; *Chrysler Corp. v. Superior Dodge, Inc.,* 83 F.R.D. 179, 186 (D. Md. 1979).

For example in *Great Coastal Exp. v. International Broth., etc, supra,* 675 F. 2d 1349, a union sued to set aside

a judgment against it on grounds that plaintiff's witnesses had perjured themselves in the original trial. The Fourth Circuit found that the district court properly denied the union's 60(b)(3) motion on grounds of untimeliness. The court then addressed the "independent action" question, holding that "not withstanding the considerable criticism leveled against the intrinsic or extrinsic destinction . . . it is clear that perjury and false testimony are not grounds for relief in an independent action in the Fourth Circuit." *Id* at 138. The court therefore declined to vacate the prior judgment.

Despite the risk that abolishing the distinction between extrinsic and intrinsic fraud in suits for fraud upon the court may undermine the time limitations set forth for motions under Rule 60(b)(3), this court is bound by the Third Circuit ruling in *Publicker*. Contrary to Bandai's motion, however, this does not mean that all forms of intrinsic and extrinsic fraud provide relief from a prior judgment. Rather, only clear and convincing proof of the most flagrant examples of misconduct, even if usually categorized as intrinsic fraud, are sufficient to set aside a prior judgment. Thus, district courts within the Third Circuit have held in decisions subsequent to the passage of Rule 60(b)(3) that conduct actionable under the Rule will not support an independent suit for fraud upon the court. In *Petry v. General Motors Corp., Chev. Div.*, 62 F.R.D. 357, 361-359 (E.D. Pa. 1974) the court held that defendant's intrinsic fraud, such as the filing of allegedly fraudulent answers to interrogatories did not constitute "fraud upon the court". The court was thus precluded from setting aside a stipulation of dismissal entered pursuant to a settlement agreement one year earlier.

Similarly, in *Hohensee v. Grier*, 373 F. Supp. 1358 (M.D. Pa. 1974), plaintiff attempted to negate the *res judicata* effect of prior judgments regarding the validity of certain deeds on the grounds that these judgments were procured by fraud in the form of perjurious testimony. The court held that such broad allegations of perjury "do not overcome the desirability of finality which is the basis of the *res judicata* doctrine." *Id.* at 1365. Citing *Publicker* for the rule "more than mere perjury is required to give relief from final judgment", the court explained that the present standard for setting aside a prior judgment was best expressed as follows:

> Perjured testimony that warrants disturbance of a final judgment must be shown by clear, convincing and satisfactory evidence to have been, not false merely, but to have been wilfully and purposely falsely given, and to have been material to the issues tried and not merely cumulative but probably to have controlled the result. Further, a party seeking to be relieved from the judgment must show that the fact of the falsity of the testimony could not have been discovered by reasonable diligence in time to offset it at trial".

Id., quoting Shammas v. Shammas, 9 N.J. 321, 330 (1952) (J. Brennan, now U.S. Supreme Court Justice).

This statement of the essential elements of an independent action to obtain relief from a prior judgment on the basis of fraud is consistent with following elements outlined by the Fifth and Eighth Circuits:

> (1) a judgment which ought not, in equity and good conscience, to be enforced; (2) a good defense to the alleged cause of action on which the judgment is founded; (3) fraud, accident, or mistake which prevented the defendant in the judgment from obtaining

> the benefit of his defense; (4) the absence of fault or negligence on the part of defendant; and (5) the absence of any adequate remedy at law.

Addington v. Farmer's Elevator Mutual Ins. Co., 650 F. 2d 663, 667-68 (5th Cir.), *cert. denied*, 454 U.S. 1098 (1981); *Bankers Mortgage Company v. U.S.*, 423 F. 2d 73, 79 (5th Cir.), *cert. denied*, 399 U.S. 927 (1970); *National Security Company v. State Bank*, 120 F. 593, 599 (8th Cir. 1903); 11 Wright and Miller, *Federal Practice and Proc.* § 2868 at 238.

Application of the relevant elements to the facts in the instant case demonstrates that Bandai cannot establish (1) that it has a good defense to Midway's claims in the prior action, and (2) that even if the fraud alleged occurred, Bandai was prevented from obtaining the benefit of its defense.

1. *Bandai Cannot Establish a Good Defense.*

A necessary element of a claim of fraud upon the court is that plaintiff show the existence of a valid defense to the causes of action on which the judgment is founded. Bandai's challenge to the partial summary judgment entered by Judge Meanor is limited to the question of Midway's standing. According to Bandai, the alleged fraud involved a "broad scheme to give Midway standing as owner which it should not have had" by concealing the existence of an oral agreement giving Namco a reversionary interest in the copyrights. Bandai Brief, pp. 29-30.

To determine the legal consequence of the oral agreement to return the copyrights, the court must first examine the Copyright Act. Under 17 U.S.C. § 201(a), ownership of a copyright "vests initially in the author or authors

of the work", in this case Namco. 17 U.S.C. § 201(d)(1) in turn provides that, "The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law . . ." The breadth and scope of this provision is amplified by the definition of "transfer of copyright ownership" contained in § 101 of of the Act, which provides that:

> A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, *whether or not it is limited in time* or place of effect, but not including a nonexclusive license.

Thus, Section 101 makes plain that any form of conveyance is effective as a transfer of copyright ownership. When viewed in this statutory context, the agreement between Midway and Namco unquestionably effected such a "transfer of copyright ownership."

Further, the underscored language of § 101, that a conveyance—including an assignment—will effect a transfer of ownership irrespective of "whether or not it is limited in time", totally negates Bandai's challenge to the assignments to Midway based on a supposed agreement to grant back rights to Namco in the future. As a matter of law, § 101 makes such considerations entirely irrelevant.

The last relevant provision of the Copyright Act is § 501(b), which provides that:

> The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of sections 205(d) and 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it.

The reversionary interest which NAMCO held in the copyrights would give Namco at most a "beneficial interest" in the copyrights transferred to Midway. But, as the disjunctive language of § 501(b) makes plain, the holder of the legal title alone, without owning any or all of the associated beneficial interests, has standing to sue for an infringement which occurs during its ownership. Thus in the present case, if Bandai is correct that Namco transferred title to the copyrights to Midway while secretly reserving a reversionary beneficial interest for itself, Midway nevertheless had express authority under § 501 to prosecute the prior action as the undisputed holder of legal title at the time of Bandai's infringements.

The cases uniformly support this conclusion. *In Williams & Wilkins Co. v. United States*, 172 U.S.P.Q. 670 (Ct. Cl. 1972), *rev'd on other grounds*, 487 F. 2d 1345 (Ct. Cl. 1973), *aff'd by an equally divided court*, 420 U.S. 376 (1975), the publisher of various medical journals charged the United States with copyright infringement based on unauthorized photocopying by the National Institute of Health. The United States asserted that the publisher lacked standing because the journal was owned by certain third party associations which, it claimed, were necessary parties. Moreover, the United States charged that the contract between the publisher and third party owners, "reserves the right to have the copyright assigned to the Association if any time in the future this seems desirable." 172 U.S.P.Q. at 676 (emphasis added). This claim is identical to the supposed agreement which Bandai alleges here as the basis for challenging Midway's standing.

Rather than vitiating the publisher's standing in *Williams & Wilkins Co.*, however, the Court found that by

virtue of the reversionary agreement, the publisher was, at least initially, the owner of the copyrights and therefore had standing to sue:

> This [language that the third party association reserved the right to have the copyrights transferred back] is a clear indication that it was the parties' intent that plaintiff should own the copyright ab initio. In short, there is no evidence that the . . . [association] intended anything other than that plaintiff, and plaintiff alone, should own the copyright in the respective journals and should enforce the copyright by bringing lawsuits, or otherwise." *Id.* at 676.

The same result obtains here. Assuming the existence of an agreement that Midway would return the copyrights to Namco on Namco's request, the law is clear that the existence of such an agreement has no impact on Midway's ownership or standing to sue. *See National Comics Publications, Inc. v. Fawcett Publications, Inc.*, 191 F. 2d 594, 599 (2d Cir. 1951) (where contract between originator of work and newspaper syndicate provided that the copyright would be held by the syndicate during the period of contract, but would revert to originator upon termination, syndicate had standing as "proprietor" of work); *Kamakazi Corp. v. Robbins Music Corp.*, 534 F. Supp. 69 69 (S.D.N.Y. 1982) (holder of legal title had standing to sue for infringement, separate and apart from owner of beneficial interest and exclusive licensee); see also *Boesch v. Graff*, 133 U.S. 697, 700-701 (1890) (patent assignment valid where title vested in assignee, even though subject to reassignment based on condition subsequent); *Littlefield v. Perry*, 88 U.S. 205 (1880); *Green v. LeClair*, 24 F. 2d 76-77 (7th Cir. 1928).

The same principle has been applied in suits for trademark infringement. For example, in *In re George J. Ball, Inc.*, 153 U.S.P.Q. 426 (T.T.A.B. 1967), a trademark examiner refused registration of a mark on the ground that Ball, the assignee of a foreign corporation, was not the owner of the mark in the United States. To support this decision, the examiner cited an agreement between Ball and its foreign assignor which provided that Ball's rights in the United States could be terminated by either party on written notice. In the event of such termination, Ball further agreed to transfer back to the assignor any trademark registration obtained by Ball in the United States. Like Bandai here, the examiner reasoned that because Ball's rights were revocable on notice from the assignor, Ball did not possess the usual attributes of ownership.

The Appeal Board in *Ball* had to look no further than fundamental principles of contract law in reversing the examiner's decision and declaring Ball to be owner of the mark:

> "It is well settled, moreover, with respect to a transfer of property and contract rights that *an obligation to reassign on the happening of a condition subsequent does not vitiate the effectiveness or completeness of the present transfer.*" *Id.* at 428 (emphasis added).

Since revocation by the assignor was clearly a condition subsequent, which had not occurred, the assignment effected a present transfer of rights and therefore conferred present ownership on Ball.

Ball was recently followed in *Model Rectifier Corp. v. Takachiho International Inc.*, 220 U.S.P.Q. 508 (C.D. Cal.1982), *aff'd* 221 U.S.P.Q. (9th Cir. 1983). The facts

of that case bear a striking resemblance to the case at bar. The plaintiff in Model Rectifier, a United States corporation, was the exclusive distributor in the United States of toys manufactured by Tamiya, a Japanese corporation. Tamiya assigned the United States rights in its trademark to plaintiff, subject to termination if the plaintiff did not meet certain sales quotas. *Id.* at 510.

In granting plaintiff a preliminary injunction against defendants for trademark infringement, the court, citing *Ball,* ruled that:

> "The fact that Plaintiff may be *required* to reassign the TAMIYA trademark upon the happening of a condition subsequent does not vitiate the effectiveness of the assignment." *Id.* at 511 (emphasis added).

Under these authorities, the existence of the alleged oral agreement to return the copyrights would clearly not give rise to a good defense to Midway's claims. The undisputed fact that the written assignment effected a "transfer of copyright ownership" as defined by the Copyright Act gave Midway standing to sue, notwithstanding the alleged oral agreement to return the copyrights.

To avoid summary judgment Bandai argues that an exception to the Copyright Act should be carved out here because the assignment was for litigation purposes, and that this somehow vitiated the transfer. In support of this argument, Bandai cites *Crown Die & Tool Co., v. Nye Tool & Machine Works,* 261 U.S. 24 (1923), a patent case. In *Crown Die,* the Court determined that the plaintiff lacked standing to sue for patent infringement where the alleged "assignment" consisted of nothing more than a conveyance of the right to sue the defendant. *Id.* at 25-26. None of the other incidents of patent ownership, such as

the right to manufacture or vend, were covered by the transfer. *Id.*

Crown Die is distinguishable from the facts in the instant case. Midway not only received an assignment of the copyrights themselves, but also received the exclusive right to manufacture and market Pac-man and Galaxian products in the United States. In exercising those rights, Midway has sold over $450,000,000 worth of Pac-man and Galaxian products and granted over 500 licenses which incorporate the Pac-man and Galaxian copyrights and trademarks. (Affidavit of David Maroffske ¶¶ 3 and 4.) Thus, unlike an assignment of a single litigation claim in *Crown Die*, which is divorced from the underlying rights in the work, Namco transfered to Midway not only the right to sue all infringers, but also the underlying right to exclusively exploit the underlying works in the United States.

Assuming as true Bandai's allegation that NAMCO assigned the copyrights to Midway for litigation purposes only, such an assignment is valid. In *Prather v. Neva Paperbacks, Inc.*, 410 F. 2d 698 (5th Cir. 1969), the defendants did not challenge the trial court's finding that the plaintiff author's works had been copied, but instead argued on appeal "that they were not sued by the right party." *Id.* at 698. The copyright had originally been held by plaintiff's publisher but, on discovery of the infringement, was assigned to the plaintiff for no apparent purpose other than enforcement. Further, as part of the assignment the plaintiff granted back to the publisher an exclusive license for all publishing rights and "rights sufficient to enable the publisher to copyright the book." *Id.* at 699 n. 1.

The defendants argued that the combination of these terms rendered the assignment to plaintiff ineffective. The Court, however, refused to accept this argument, explaining that:

> As an assignee of the causes of action for infringement damages, past, present and future, Prather [the assignee] has the right to maintain the action . . . for infringement. *There is no public policy against such assignments and under F.R. Civ. P. 17 such assignee of all choses in action for infringement, whether a 'proprietor' or not, has standing to sue* and the court has effective power to avoid altogether the risk of double suit or double recovery. *Id.* at 700 (emphasis added).

See also, 6 Wright and Miller, *Federal Practice and Procedure* § 1545(1971).

These authorities demonstrate that even if Bandai had been able to prove the existence of the alleged oral agreement in the prior litigation, such proof would not have removed Midway's standing or provided a good defense to Midway's claims.

2. *Bandai Was Not Prevented From Presenting Defense*

In addition to showing the existence of a good defense to the cause of action on which the judgment was founded, a plaintiff seeking to get aside a prior judgment for fraud upon the court must show that the alleged fraud prevented the plaintiff from obtaining the benefit of a defense. As the above discussion makes clear, even if the alleged oral agreement had been disclosed, Bandai could not have successfully challenged Midway's standing on that basis. The existence of the alleged oral agreement has no bearing on the other legal issues upon which the case turned, such as Judge Meaner's rulings on the valid-

ity of the copyrights, the obvious copying of Midway's Pac-man and Galaxian games, and Bandai's infringing use of the name "Galaxian". Therefore, the alleged concealment of the oral agreement did not deny Bandai the benefit of any defense. Cf. *Simons v. Gorsuch,* 715 F. 2d 1248, 1253 (7th Cir. 1983). Denial of motion to vacate judgment for fraud under Rule 60(b)(3) was not abuse of discretion where materials presented in support of motion are essentially irrelevant to the legal issues upon which case turned.

Moreover, the evidence in the record does not reveal that Midway's conduct was so fraudulent that equity requires the judgment be set aside. Although Midway's attorneys did not disclose in the prior litigation letters relied upon by Bandai for fraud allegations, there is no clear and convincing proof that this was part of a scheme to protect Midway's standing since, in fact, the existence of an oral agreement entitling Namco to return of the copyrights would not have affected Midway's standing to bring suit. Furthermore, Midway disputed the very existence of the oral agreement in its dealings with Namco, so it had nothing to disclose in the prior litigation about such an agreement. Indeed, the outcome of this dispute between Namco and Midway was that Namco ultimately abandoned its position.

The most urgent authority on the subject of fraud in this case is the related litigation in the Eastern District of New York, captioned *Bally Midway Mfg. Co. v. Mischo K. Toy,* No. CV 82-2353 (EHN) E.D.N.Y. 1982) (*Mischo*"). There, the three documents which form the basis of Bandai's case were produced and reviewed by the magistrate and Judge Nickerson when considering the

defendants' claims of a sham assignment and anti-trust conspiracy. After reviewing the identical claims and evidence, Judge Nickerson directed a verdict for Midway on the issue of copyright validity and ownership—thus rejecting outright the claim of a sham assignment—and summarily dismissed the defendants' antitrust defenses and counterclaims. Thus, *Mischo* demonstrates that even if Bandai had obtained these documents in the prior litigation, these documents would not have provided Bandai with any additional defense to the infringement claim of Midway.

A final consideration militates in favor of granting Midway's motion for summary judgment. In this case, Bandai elected to settle the prior litigation, as opposed to running the risk and expense of trial. By so doing, Bandai terminated discovery, gave up its right to subpoena witnesses and to pursue additional evidence regarding the relationship between Midway and Namco. In similar circumstances, where the plaintiff brings suit to set aside a prior settlement agreement based on fraud, courts have recognized the fact that the plaintiff forfeited its right to additional discovery by electing to settle. For example, in *Kerwit Med. Products v. N & H Instruments*, 616 F. 2d 833 (5th Cir. 1980) a party which had entered into a consent decree acknowledging its infringement of a patent attempted to attack the consent judgment with newly discovered evidence that the patentee had known, prior to the issuance of its patent, that a product similar to its own had been in public use for several years. The infringer claimed that the concealment of this knowledge, which was effectuated by the entry of the consent decree prior to the patentee's obligation to respond to interrogatories, amount-

ed to a fraud upon the court. The Fifth Circuit rejected the infringer's 60(b) motion, while leaving open the question of whether a fraud upon the court would have existed had the discovery process continued and had the patentee culpably withheld material facts. *Id.* at 837.

The court explained:

> An Attorney is to be expected to responsibly present his client's case in the light most favorable to the client, and it is not fraudulent for him to do so. Much more must be shown . . . . the infringer opted to settle the case before completing discovery, obviously for reasons it then deemed sufficient. That it may have acted differently on different facts is no basis for grounding a complaint of fraud. We need only cite the well-settled rule that the mere nondisclosure to an adverse party and to the court of facts pertinent to a controversy before the court does not add up to "fraud upon the court" for purposes of vacating a judgment under Rule 60(b). (citations omitted). 616 F. 2d at 837.

The Fifth Circuit reiterated its view in a subsequent appeal brought in the same case. In *Humanetics, Inc. v. Kerwit Med. Products, Inc.*, 709 F. 2d 942 (5th Cir. 1983) the court held that the alleged nondisclosure of prior public use before issuance of a patent was not such "fraud upon the court" as to warrant relief from a consent judgment of patent infringement and validity in an independent equitable action. The court explained,

> Simply stated, under the particular circumstances here presented (where the plaintiff by abandoning discovery and entering into the consent judgment, and where the alleged nondisclosure has been previously held by a definitive Rule 60(b) judgment not to be a "fraud on the court" as between the parties), the fraud alleged (the asserted failure to disclose prior use or

> prior publication to the patent office before the patent was issued, or to the plaintiff when enforcement of the patent was sought against it) is not of such weight as to outbalance under the circumstances before us "the general policy in favor of finality of litigation" concluded by a patent-validity consent judgment and in which the complaining party could reasonably have, but failed to raise as a defense the matter now relied upon to prevent enforcement of the judgment. *USM Corporation v. SPS Technologies, Inc.* 694 F. 2d 505, 508-10 (7th Cir. 1982).

Id. at 944.

Similarly in the instant case, Bandai elected not to go to trial where the three documents relied upon here might have been uncovered through, for example, the questioning of witnesses. Even if such documents had been disclosed, however, proof of the existence of an oral agreement giving Namco a reversionary interest would not have provided Bandai with a defense to the infringement claims. In view of Bandai's failure to satisfy two requisite elements for a claim of fraud upon the court, namely that Bandai had a good defense to the claims underlying the judgment and that Midway's fraud prevented Bandai from presenting a defense, the *res judicata* effect of the partial summary judgment ruling of Judge Meanor and the release contained in the settlement agreement entered into between the parties in the prior litigation preclude this suit.

IV. *Conclusion*

Accordingly, summary judgment for defendants is granted.[2] Counsel for the defendants shall prepare an order in conformity with this opinion.

DATED: October 17, 1984

/s/ Dickinson R. Debevoise
U.S.D.J.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

HON. DICKINSON R. DEBEVOISE

Civil Action No. 83-2740

BANDAI AMERICA INCORPORATED, et als.,

Plaintiffs,

vs.

BALLY MIDWAY MFG. CO., et als.,

Defendants.

ORDER GRANTING SUMMARY ON
THE COMPLAINT TO DEFENDANT
BALLY MIDWAY MFG. CO.

This matter having been opened to the Court by Pitney, Hardin, Kipp & Szuch, attorneys for defendant Bally Midway Mfg. Co., upon the motion of defendant Bally for an Order pursuant to Rule 56(b) of the Federal Rules of

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[2] Plaintiff conceded at the hearing on the motions that at this time it does not have evidence linking Coleco to the alleged concealment of Namco's reversionary interest in the copyrights. This is an additional ground to grant Coleco's motion.

Civil Procedure granting summary judgment in favor of defendant; and the Court having reviewed the submissions of the parties in support thereof and in opposition thereto and having heard the oral argument of counsel; and for the reasons set forth in the Court's Opinion dated October 17, 1984;

IT IS on this 5th day of December, 1984

ORDERED that the motion of defendant Bally Midway Mfg. Co. for summary judgment with respect to plaintiff's complaint is hereby granted, with costs to the defendants; the aforesaid Judgment is hereby directed to be entered as a final judgment pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Court having expressly determined that there is no just reason for delay; and it is further

ORDERED that any application for the award of attorneys' fees to defendant Bally Midway Mfg. Co. shall be made by separate motion.

/s/ Dickinson R. Debevoise,
U.S.D.J.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

HON. DICKINSON R. DEBEVOISE

Civil Action No. 83-2740

BANDAI AMERICA INCORPORATED, et als.,

Plaintiffs,

vs.

BALLY MIDWAY MFG. CO., et als.,

Defendants.

ORDER GRANTING SUMMARY ON THE COMPLAINT TO DEFENDANT COLECO INDUSTRIES, INC.

This matter having been opened to the Court by Pitney, Hardin, Kipp & Szuch, attorneys for defendant Coleco Industries, Inc., upon the motion of defendant Coleco for an Order pursuant to Rule 56(b) of the Federal Rules of Civil Procedure granting summary judgment in favor of defendant; and the Court having reviewed the submissions of the parties in support thereof and in opposition thereto and having heard the oral argument of counsel; and for the reasons set forth in the Court's Opinion dated October 17, 1984;

IT IS on this 5th day of December, 1984

ORDERED that the motion of defendant Coleco Industries, Inc. for summary judgment with respect to plaintiff's complaint is hereby granted, with costs to the defendant; the aforesaid Judgment is hereby directed to be entered as a final judgment pursuant to Rule 54(b) of the

Federal Rules of Civil Procedure, the Court having expressly determined that there is no just reason for delay; and it is further

ORDERED that any application for the award of attorneys' fees to defendant Coleco Industries, Inc., shall be made by separate motion.

/s/ Dickinson R. Debevoise,
U.S.D.J.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

HON. DICKINSON R. DEBEVOISE

Civil Action No. 83-2740

BANDAI AMERICA INCORPORATED, et als.,

Plaintiffs,

vs.

BALLY MIDWAY MFG. CO., et als.,

Defendants.

ORDER GRANTING SUMMARY ON
THE COMPLAINT TO DEFENDANT
NAMCO LTD. AND
NAMCO AMERICA, INC.

This matter having been opened to the Court by Hannoch, Weisman, Stern, Besser, Berkowitz & Kinney, attorneys for defendants Namco Ltd. and Namco America, Inc., upon the motion of defendants, Namco Ltd. and Namco America, Inc. for an Order pursuant to Rule 56(b) of the Federal Rules of Civil Procedure granting summary judg-

ment in favor of defendants; and the Court having reviewed the submissions of the parties in support thereof and in opposition thereto and having heard the oral argument of counsel; and for the reasons set forth in the Court's Opinion dated October 17, 1984;

IT IS on this 11th day of December, 1984

ORDERED that the motion of defendants Namco Ltd. and Namco America, Inc. for summary judgment with respect to plaintiff's complaint is hereby granted, with costs to the defendants; the aforesaid Judgment is hereby directed to be entered as a final judgment pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the Court having expressly determined that there is no just reason for delay; and it is further

ORDERED that any application for the award of attorneys' fees to defendants Namco Ltd. and Namco America, Inc. shall be made by separate motion.

/s/ Dickinson R. Debevoise,
U.S.D.J.

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 84-5884 & 85-5355

No. 84-5884

BANDAI AMERICAN INC. A NEW JERSEY CORPORATION and BANDAI COMPANY, LTD., a Japanese Corporation, now merged into BANDAI COMPANY, LTD.,

Involuntary plaintiffs

vs.

BALLY MIDWAY MFG., CO., an Illinois Corporation, NAMCO, LTD., a Japanese Corporation NAMCO AMERICA, INC., a California Corporation, Bandai American Incorporated and Bandai Company, Ltd.,

Appellants

No. 84-5355

BANDAI AMERICA INCORPORATED, A NEW JERSEY Corporation and BANDAI COMPANY, LTD., a Japanese Corporation, and BANDAI OVERSEAS CORPORATION, a Japanese Corporation now merged into BANDAI COMPANY, LTD.

Involuntary Plaintiffs

vs.

BALLY MIDWAY MFG. CO., an Illinois Corporation, NAMCO, LTD., a Japanese Corporation, NAMCO AMERICAN, INC., a California Corporation, and CELECO INDUSTRIES, INC., a Connecticut Corp., BANDAI AMERICAN, INC., ET AL.,

Appellants

(D.C. Civ. No. 83-2740)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

Present: ADAMS, GIBBONS and WEIS, *Circuit Judges*

JUDGMENT

This cause came on to be heard on the record from the United States District Court for the District of New Jersey and was argued by counsel August 13, 1985.

On consideration whereof, it is now here ordered and adjudged by this Court that the judgments of the said

District Court entered December 10, 1984, and December 13, 1984, and appealed at No. 84-5884 be, and the same are hereby affirmed. It is further ordered and adjudged that the appeal from the order of said District Court entered May 7, 1985, docketed at 85-5355, be, and the same is hereby dismissed as interlocutory and unappealable. Costs taxed against the appellants in both appeals.

ATTEST:

/s/ Sally Mrvos
Clerk

October 10, 1985